

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES OF THE EMPLOYEES' RETIREMENT SYSTEM
OF THE STATE OF HAWAII
HELD ON MONDAY, APRIL 11, 2011
CITY FINANCIAL TOWER, 201 MERCHANT STREET, SUITE 1935
HONOLULU, HAWAII

ROLL CALL

Trustees present: Mr. Colbert Matsumoto, Chair
Ms. Jackie Ferguson-Miyamoto
Mr. Alton Kuioka
Ms. Piliialoha Lee Loy
Mr. Jerome Rauckhorst
Mr. Wayne J. Yamasaki

Trustee excused: Mr. Emmit Kane
Mr. Kalbert K. Young

Attorneys: Ms. Diane Kishimoto, Deputy Attorney General

Staff: Mr. Wesley K. Machida, Administrator
Ms. Kanoe Margol, Assistant Administrator
Mr. Rodney June, Chief Investment Officer
Mr. Vijoy Chattergy, Investment Specialist
Ms. Gerri Konishi, Member Home Loan Assistant
Ms. Wanda Kugiya, Recording Secretary

Guests: Mr. Neil Rue) Pension Consulting Alliance, Inc.
Mr. Colin Bebee)

Mr. Daniel Moore) Courtland Partners
Mr. Michael Humphrey)
Ms. Lourdes Canlas)

Ms. Katie Stokel) Abbott Capital
Mr. Jonathan Roth)

QUORUM

A quorum being present, Chair Colbert Matsumoto called the meeting to order at 10:34 a.m.

PRESENTATIONS

COURTLAND PARTNERS, LTD. - 4TH
QUARTER 2010 PORTFOLIO REVIEW

Mr. Moore and Mr. Humphrey presented Courtland Partners, Ltd.'s 4th quarter 2010 Real Estate Performance Measurement Report. Courtland Partners summarized the ERS's real estate portfolio as of December 31, 2010 as follows:

Current Market Value:	\$ 788,373,295
% of Total Plan Assets:	7.1%
Unfunded Investment Commitments:	\$ 100,710,474
Market Value + Unfunded Investment Commitments:	\$ 889,074,769
Current Capital Available for Investment:	\$(106,541,447)
Target Allocation to Real Estate	\$ 782,533,322

EXECUTIVE SESSION

On a motion made by Ms. Lee Loy, seconded by Mr. Rauckhorst, and unanimously carried, the Board entered into Executive Session, pursuant to HRS § 92-5(a)(8), to consider, deliberate, and act on:

- portions of Courtland Partners 4th quarter 2010 portfolio review that must be kept confidential
- BlackSand Capital Opportunity Fund I, L.P. real estate investment opportunity
- Abbott Capital Management, LLC 2011 tactical plan

EXECUTIVE SESSION TO CONSIDER,
DELIBERATE, AND ACT ON PORTIONS
OF COURTLAND PARTNERS 4TH
QUARTER 2010 PORTFOLIO REVIEW
THAT MUST BE KEPT CONFIDENTIAL

EXECUTIVE SESSION TO CONSIDER,
DELIBERATE, AND ACT ON
BLACKSAND CAPITAL OPPORTUNITY
FUND I, L.P. REAL ESTATE
INVESTMENT OPPORTUNITY.

EXECUTIVE SESSION TO CONSIDER,
DELIBERATE, AND ACT ON ABBOTT
CAPITAL MANAGEMENT, LLC 2011
TACTICAL PLAN

On a motion made by Ms. Lee Loy, seconded by Mr. Kuioka, and unanimously carried, the Board emerged from Executive Session.

NEW BUSINESS

COVERED CALLS MANAGER SEARCH

The CIO presented his recommendation for the search process for a Covered Calls manager. The Board authorized the creation of the Covered Calls asset class in January 2010. The initial size of the mandate is anticipated to be approximately \$350 million. The CIO asked the Board to authorize the following process for the retention of a Covered Calls Manager:

- 1) Utilize the search capacities and staff resources of PCA to conduct a Request for Information (RFI) search process.
- 2) Investment managers seeking to participate in the RFI must meet the following minimum qualifications (MQs):
 - a. Organization
 - Firm must have been in existence for at least five full years.
 - It must be SEC Registered, a Bank or licensed Insurance Company Affiliate.
 - It must not have been censured by the SEC or subject to

- regulatory action within the last three years.
- The Proposer will complete the RFP questionnaire in its entirety.
- b. Client Base/Services
- Total firm assets under advertisement must be in excess of \$1 billion.
 - It must manage at least \$500 million in assets dedicated to the Covered Call or equivalent strategies.
 - It must have at least one existing US based tax-exempt client utilizing a Covered Call or equivalent mandate (please include size, name and/or client type of clients meeting this requirement):
 - i) At least one existing portfolio in this mandate with over \$250 million or
 - ii) Two existing portfolios in this mandate with over \$100 million.
- c. Investment Professionals
- The Proposer must be directly responsible for the management of the account, and all personnel responsible for the account must be employees of the firm.
 - Firm must have three investment professionals dedicated full time to the Covered Call strategy.
 - It must have six professional employees.
- d. Investment Philosophy/Approach
- Firm must agree to consider the BXM Index as a reasonable benchmark.
 - It must be able to adhere to client specified portfolio constraints.
- e. Historical Performance
- Firm must have at least a three-year live (i.e., not simulated or back tested) GIPS compliant performance history for the period ending March 31, 2011 in the above mandate.
- 3) PCA will send the RFI to firms meeting the MQs.
- 4) PCA will provide staff with a (i) list of all inquiring firms for the RFI and (ii) a list of all firms who pass the first screen based on MQs and performance to create a short list of candidates. These lists will be provided to the Board during monthly status reports.
- 5) PCA will conduct an analysis of the responses from the short list candidates and rank the competing firms according to the established criteria, and develop a finalist list of candidates.
- 6) Staff and PCA will present the finalist list of candidates to the Board of Trustees for approval.
- 7) Staff and PCA will conduct appropriate due diligence of the finalist list candidates (including site visits).
- 8) Finalist candidates will deliver a presentation to the Board; Board to rank firms and select a GILS manager.
- 9) Attorney General staff and ERS staff finalize the appropriate business and legal terms and conditions of the contract.

ERS staff's oversight of the RFI process will include:

- 1) Review of the RFI minimum qualifications and appropriateness of questionnaire and proposed timeline.
- 2) Conduct on-going oversight of the proposed RFI process.
- 3) Deliver a monthly status report to the Board on the status of the search.
- 4) Assist in on-site due diligence as necessary.
- 5) Assist the Board in evaluating the finalist candidates.
- 6) Finalize contract and funding.

The proposed timeline is as follows:

- April 18, 2011 - Covered Calls manager search advertisement to appear in Pensions & Investments.
- April 19, 2011 - RFI sent to PCA's initial short list candidates.
- May 17, 2011 - RFI responses deadline; PCA begins evaluation of RFI responses.
- June 13 (or July) 2011 - Finalist candidate list is brought to the Board for approval.
- June/July 2011 - Due diligence and site inspections conducted by staff and PCA.
- July or August 2011 - Interview of finalist candidates; select manager for mandate.
- August/Sept 2011 - Contract negotiations and start date.

In addition, staff recommends a quiet period between offerors and the Board and staff during the entire Covered Calls manager search process until the contract(s) is/are awarded and executed.

On a motion made by Mr. Kuiooka, seconded by Ms. Lee Loy, and unanimously carried, the Board approved the MQs and the RFI process.

COURTLAND PARTNERS, LTD. CONTRACT

The CIO reported that the contract for Courtland Partners, Ltd., the ERS's real estate consultant, expires on September 30, 2011. The Board has directed staff to proceed with a comprehensive request for proposals ("request for proposals") covering the general consultant, real estate consultant and non-discretionary private equity advisor, for contract term(s) to commence in January 2012. The CIO therefore recommends that Courtland Partners, Ltd.'s contract be extended through September 30, 2012, with a 30-day termination clause to coincide with the start of the Board-selected real estate consultant under the request for proposals.

On a motion made by Mr. Rauckhorst, seconded by Ms. Lee Loy and unanimously carried, the Board authorized the extension of Courtland Partner's Ltd. contract through September 30, 2012, subject to a 30-day termination clause to coincide with the start of the contract for real estate consultant services awarded under the request for proposals.

REPORTS BY STAFF, CHAIR, TRUSTEES(S) AND DEPUTY ATTORNEY GENERAL

ACTION PLAN UPDATE

The Administrator presented his action plan as of April 1, 2011.

As part of his action plan, the Administrator requested approval of the issuance of a request for proposal to hire a consultant to establish an internal audit process for the ERS. On a motion made by Mr. Kuioka, seconded by Ms. Lee Loy, and unanimously carried, the Board approved the issuance of a request for proposals (RFP) for a consultant to establish an internal audit for the ERS. The Board also approved the following timetable for the issuance of the RFP:

	Estimated Date of Completion
Issue draft RFP	April 29, 2011
Begin RFP process (post to SPO website, ERS website and national periodical)	May 24, 2011
Complete RFP process (award contract)	July 22, 2011
Consultant contract (3- month)	December 2, 2011
Present report to Audit Committee	December 12, 2011

Other highlights of the Administrator's report:

- Finals calculations current except for a handful that are missing information from employers.
- Hired Assistant Administrator and Investment Specialist.
- Administrator's secretary, Betty Tachibana retired as of April 1, 2011.
- ERS currently has 91-92 employees. This is highest number of employees the ERS has ever had. There are 15 vacancies in the 100 positions.
- Retirement Claim Supervisor not filled for over one year. No applicants.
- Need to go forward with reorganization. For the last ERS reorganization, it took 5-7 years to complete position redesigns.
- Starting April 1, 2011, there are no furloughs for ERS.

2011 LEGISLATURE BILLS AFFECTING
THE EMPLOYEES' RETIREMENT
SYSTEM

The Administrator reported on the status of the 2011 legislative bills that affect the ERS, and the Legislative Committee's recommendations to the Board with respect to versions of the bills as of the committee's last meeting:

Bill No.	Description	Remarks/Comments	Legislative Committee's Recommendation	Status
HB 174, HD 1	Increases the members on the ERS board of trustees from eight to ten. Establishes county representation on the ERS board of directors.	County appointee shouldn't be appointed to represent the counties, but he or she should represent all members. There has always been a representative on the Board from the City over the past 20 or more years. If the trustee is from the county, then added travel costs of	Oppose	HELD

Bill No.	Description	Remarks/Comments	Legislative Committee's Recommendation	Status
		about \$5,000 per year and materials and other costs of about \$800 per year.		
HB 1035, HD 1 [BUF-17(11)]	Institutes a moratorium on the enhancement of Employees' Retirement System benefits until the system's funded ratio is at least eighty percent.	Administrative bill to prevent further decreases in the ERS funded ratio.	Support	Passed Senate
HB 1036, HD 1, SD 2 [BUF-18(11)]	Adopts language, regarding death benefits for Employees' Retirement System member on qualified military service, required to maintain the tax-qualified status of the Employees' Retirement System and adopts provisions, for the commencement of benefits, required to maintain the tax qualified status of the Employees' Retirement System.	Administrative tax compliance needed to maintain the tax exempt status of the ERS. Also, would require the ERS to pay out minimum distributions to those over 70 ½ years of age. Currently, estimated payouts would amount to approximately \$360,000.	Support	Passed Senate, 48 hours notice
HB 1038, HD 2, SD 1 [BUF-20(11)]	Provides for retirement benefits for State and county employees who become members of the Employees' Retirement System after June 30, 2012.	Administrative bill that changes benefit requirements for new hires: Does not include the change to increase the retirement age.	Oppose but replace with SB 1341	Passed Senate with amendments
HB 1092, HD 1, SD 1	Makes various amendments to the tax laws including indexing income tax amounts for inflation; excluding pension income from income tax only for certain persons; eliminating the deduction for state income taxes paid; eliminating the income tax exclusion for certain persons involved in copyrights; and modifying the tax rate on timeshare occupants and modifying the tax base upon which these persons are taxed.		No position	Passed Senate with amendments
SB 1269, SD 2, HD 1	Amends the definition of "compensation" for the purpose of calculating retirement benefits.	This change in the definition of compensation would result in an approximate reduction to the FY2012 employer contributions of about \$1 million.	Oppose	Passed House with amendments
SB 1341, SD 2, HD 1	Amends retirement benefits for state and county employees who become members of the employees' retirement system after June 30, 2012.	Includes change to increase the retirement age as well as other pension reforms described in HB 1038 and SB 1265.	Support	Passed House

**ACTIVE DEVELOPED
INTERNATIONAL EQUITY MANAGER
SEARCH -- APPOINTMENT OF AD HOC
INVESTIGATIVE COMMITTEE**

Recess

The Chair appointed the following trustees to investigate the finalists for the Active Developed International Equity Manager search and to report their recommendations to the full Board: Mr. Rauckhorst; Mr. Yamasaki; Ms. Lee Loy; and Mr. Kuioka.

The Chair called a recess at 1:29 p.m.; meeting to reconvene at 2:00 p.m.

Due to lack of quorum, the meeting did not reconvene.

REDACTED

Wesley K. Machida
Administrator

WKM:wsk